

POLCON CORPORATION ANNUAL REPORT 1972

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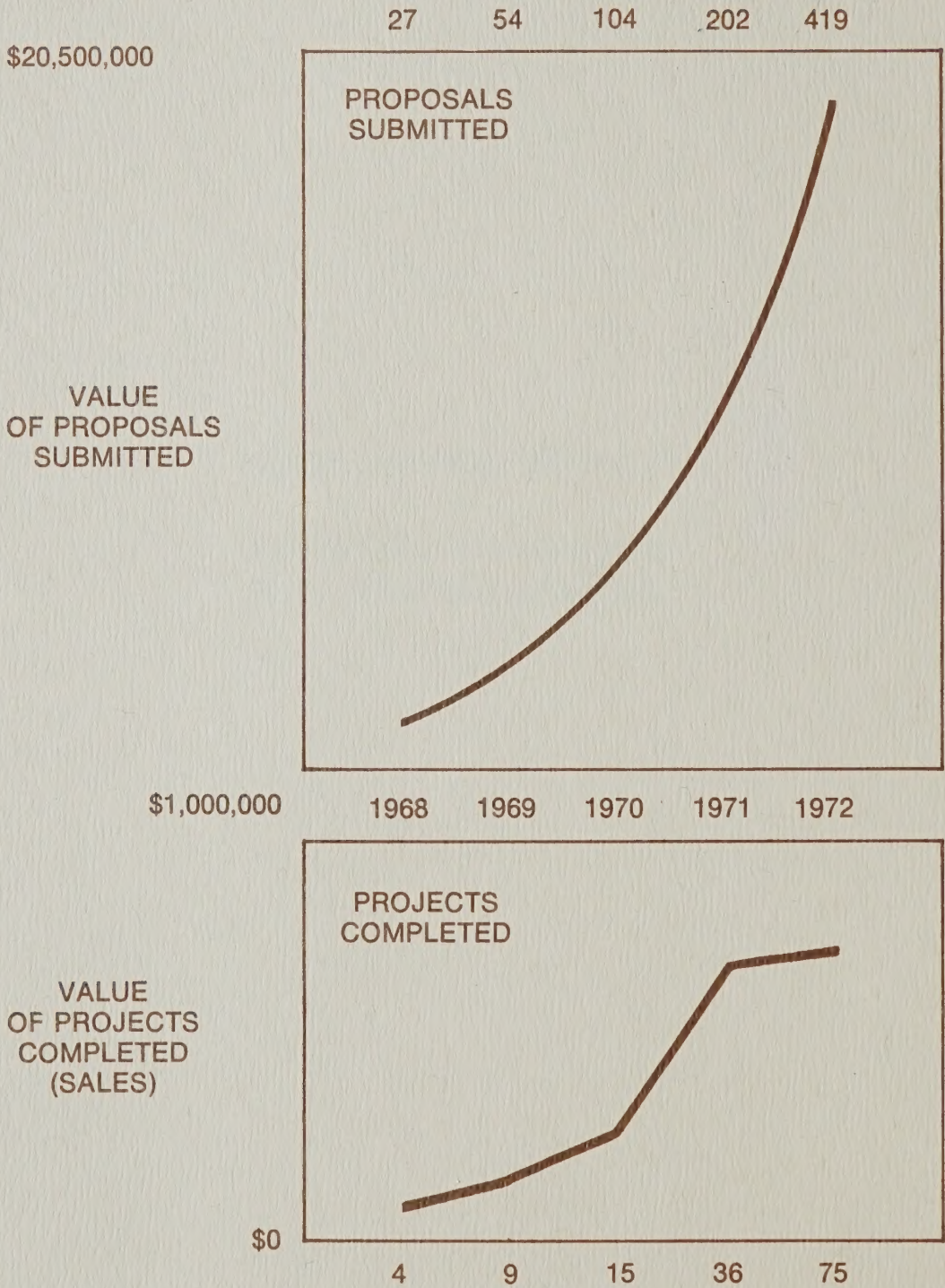


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**POLCON CORPORATION
&
SUBSIDIARY COMPANY
ANNUAL REPORT 1972**

**PROPOSALS SUBMITTED &
PROJECTS COMPLETED
1967-1972**



DIRECTORS & OFFICERS:

LUDWIK SMOLSKI

Montreal, P.Q.

President, Polcon Corporation

President, Polcon Corp.

T. P. HANSON

Sherbrooke, P.Q.

Vice-President, Polcon Corporation

Vice-President, Polcon Corp.

JOHN R. AIKMAN

Montreal, Que.

Vice-President, Polcon Corporation

Vice-President, Polcon Corp.

C. A. LAYCOCK

Montreal, P.Q.

Sect'y-Treas., Polcon Corporation

Secretary-Treasurer, Polcon Corp.

R. A. WISENER

Toronto, Canada

AUDITORS:

DUNWOODY & COMPANY

Montreal, P.Q.

COUNSEL:

PHILLIPS & VINEBERG

Montreal, P.Q.

TRANSFER AGENTS & REGISTRAR:

ROYAL TRUST COMPANY

Polcon Corporation 1550 Maisonneuve Blvd. W.,
Suite 200, Montreal 107, P.Q. Canada

Polcon Corp. 222 Cedar Lane,
Teaneck, N.J., 07666. U.S.A.

TO OUR SHAREHOLDERS

The Company is pleased to present to its Shareholders its audited financial statements for the year ended October 31, 1972, reflecting a net loss of \$42,064., equivalent to \$0.04 per share.

The Company is also pleased to report that it has booked gross sales of \$170,000. for its first quarter (ended January 31, 1973) — a traditionally quiet period of activity. This is an increase of 75.3 percent over \$96,962. recorded for the same period in 1972.

Polcon Corporation's stock became listed on the Canadian Stock Exchange during November 1972 and, as required by the Exchange, quarterly financial statements will now be presented. Reports and bulletins will also be submitted to the Shareholders, as warranted by events, to keep them up to date on the Company's activities and progress.

The management, in an effort to broaden the market base, particularly in Great Britain, Europe, Scandinavia and Japan, engaged in an extensive promotional campaign during the past year.

An office was opened in British Columbia during the latter part of 1972 to service accounts and promote sales on the western coast of North America.

As reported last year, it was envisaged that the additions to staff and expansion of promotional activities might penalize earnings in the short run. However, management continues to believe that the Company's operations had to be expanded rapidly and further,

stresses that to have failed to do so would have placed severe limitations on the Company's present and future competitive growth potential.

The Company's major market to date has been the U.S.A., and the government's announcement that pollution abatement expenditures were to be delayed, resulted in the cancellation or postponement of many potential projects. The recent enactment has already brought about sales during the Company's first quarter.

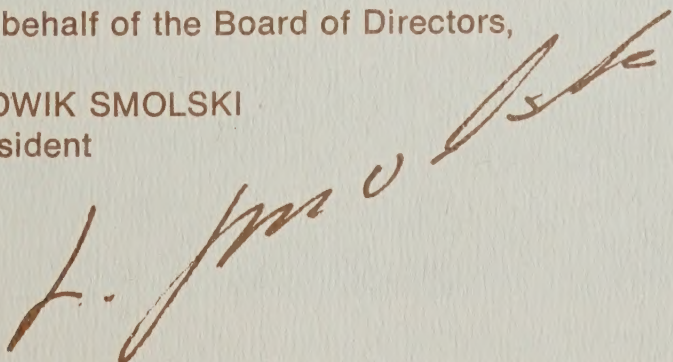
The Company has been investigating the possible obtainment of various licensing agreements for the North American market, for the sale of European equipment which would be complementary to its existing lines. One particular device, for which the Company has established that a major market potential exists, has been installed in a trial application. The Company is unable to provide its Shareholders with full details at this time, inasmuch as the contract is still under negotiation.

The management is continuing its efforts to build a strong and broadly based marketing organization and to maintain its outstanding operating and service record, as well as to concentrate on the long-term growth of the Company as a whole.

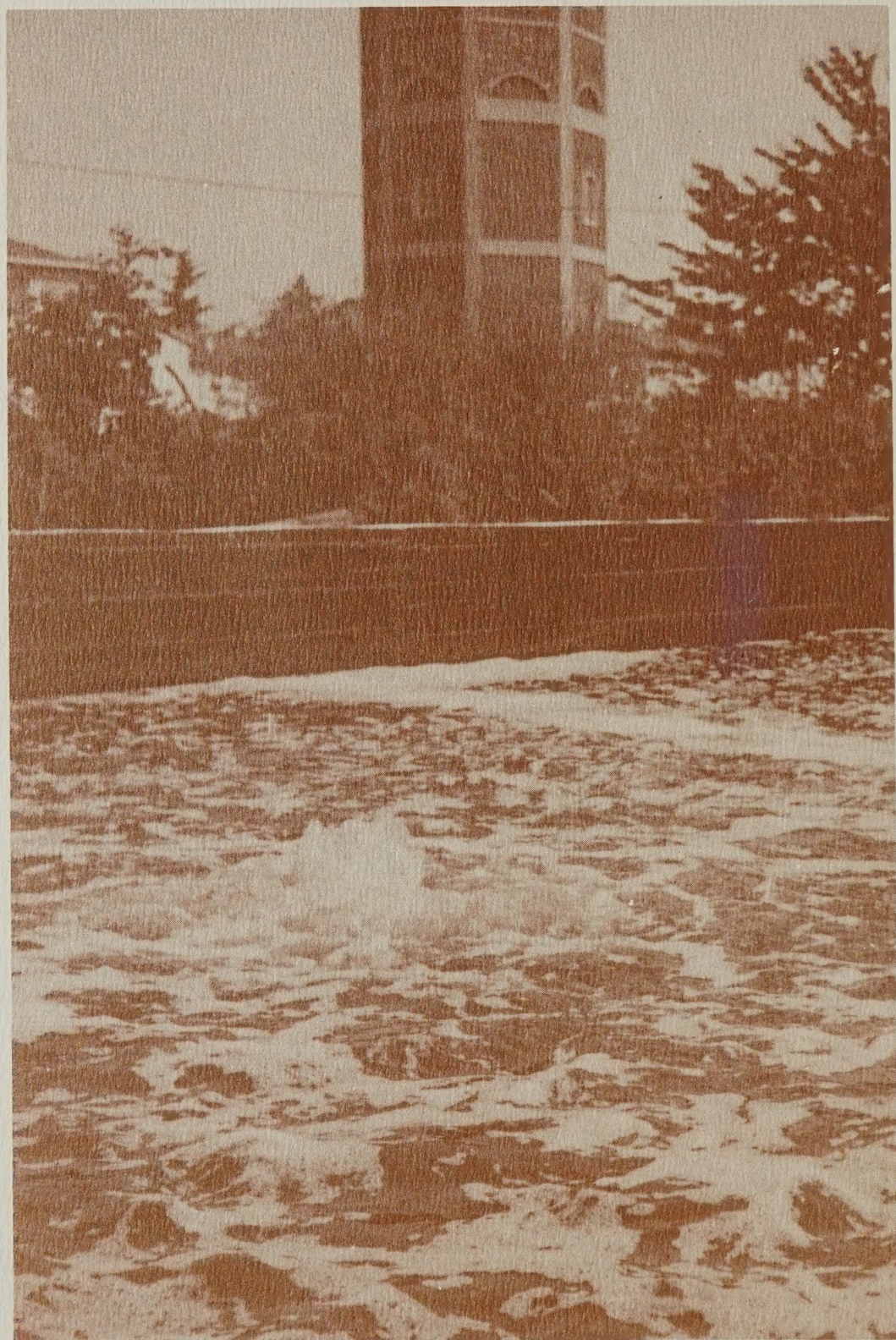
The Company should like to extend its appreciation to the Shareholders and staff for their continuing support and assistance to its policies for growth and expansion.

On behalf of the Board of Directors,

LUDWIK SMOLSKI
President



Montreal, Quebec
February 1, 1973



Polcon "Helixor" system in operation in Italy

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

for the year ended October 31, 1972

	1972	1971
SALES	\$734,404	\$699,337
COST OF SALES AND OPERATING EXPENSES		
exclusive of items shown below	708,420	583,005
Depreciation	6,112	5,854
Amortization of patents and trademarks	5,993	3,713
Amortization of leasehold improvements	1,072	1,072
Remuneration of directors as officers	56,396	34,583
	777,993	628,227
Income (loss) on operations	(43,589)	71,110
Interest income	4,575	8,026
Income (loss) before income taxes and extraordinary credit	(39,014)	79,136
Income taxes		
Current, note 9	—	25,500
Deferred, note 8	3,050	—
Income (loss) before extraordinary credit	(42,064)	53,636
Extraordinary credit — reduction in income taxes resulting from application of loss carry-forward, note 9	—	24,650
NET INCOME (LOSS) FOR THE YEAR	(42,064)	78,286
Retained earnings (deficit), beginning of year	8,518	(69,768)
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$(33,546)	\$ 8,518
Earnings (loss) per share		
Income (loss) before extraordinary credit	\$ (.04)	\$.05
Extraordinary credit	—	.02
Net income (loss)	\$ (.04)	\$.07

**CONSOLIDATED STATEMENT OF SOURCE
AND APPLICATION OF FUNDS**

for the year ended October 31, 1972

	1972	1971
SOURCE OF FUNDS		
Operations		
Net income for the year	\$ —	\$ 78,286
Charges not requiring an outlay of funds		
Depreciation and amortization	—	10,639
Deferred expenses written off	—	4,392
	Nil	93,317
APPLICATION OF FUNDS		
Operations		
Loss for the year	42,064	—
Charges not requiring an outlay of funds		
Depreciation and amortization	(13,177)	—
Deferred income taxes	(3,050)	—
Deferred expenses written off	(10,831)	—
	15,006	—
Patents and trademarks	33,989	3,417
Deferred expenses	74,131	10,831
Fixed asset purchases	8,332	23,362
Guarantee deposits	—	581
	131,458	38,191
INCREASE (DECREASE) IN WORKING CAPITAL	(131,458)	55,126
Working capital, beginning of year	377,277	322,151
WORKING CAPITAL, END OF YEAR	\$245,819	\$377,277

CONSOLIDATED BALANCE SHEET

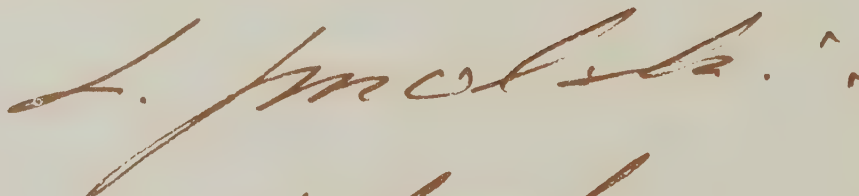
as at October 31, 1972

ASSETS

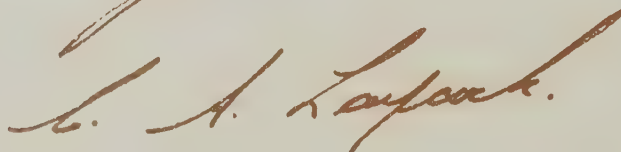
	1972	1971
CURRENT ASSETS		
Cash	\$ 6,322	\$ 29,611
Short term deposit receipt	—	100,360
Accounts receivable, note 2	499,764	360,966
Government grants receivable	2,357	1,900
Inventory, at cost	12,673	6,416
Prepaid expenses	11,590	8,050
	532,706	507,303
 FIXED ASSETS, note 3	 27,921	 26,773
 OTHER ASSETS		
Guarantee deposits	2,044	2,044
Patents and trademarks, notes 4 and 5	84,963	56,967
Deferred expenses, note 6	74,131	10,831
	161,138	69,842
	 \$721,765	 \$603,918

Approved on behalf of the Board:

Director



Director



LIABILITIES

	1972	1971
CURRENT LIABILITIES		
Bank loan, secured, note 7	\$120,000	—
Accounts payable and accrued liabilities	161,504	\$125,248
Sales and other taxes payable	5,258	3,928
Income taxes	125	850
	286,887	130,026
DEFERRED INCOME TAXES, note 8	3,050	—

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized 2,000,000

Common shares without nominal
or par value, the aggregate consideration
not to exceed \$6,000,000

Issued

1,099,990 Shares	303,333	303,333
CONTRIBUTED SURPLUS	162,041	162,041
RETAINED EARNINGS (DEFICIT)	(33,546)	8,518
	431,828	473,892
	\$721,765	\$603,918

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at October 31, 1972

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly-owned United States subsidiary company, Polcon Corp.

All material inter-company items and transactions have been eliminated in consolidation.

The accounts of the subsidiary company have been converted into Canadian funds at current rates, except for fixed assets and related depreciation, other assets as well as capital stock, for which historical rates have been used. Gains or losses on exchange translation are included in operating expenses.

2. ACCOUNTS RECEIVABLE

	1972	1971
Trade	\$444,220	\$329,681
Other	6,405	4,642
Advances to sales representatives	16,167	20,987
Due from directors	15,297	193
Due from employees	17,675	5,463
	\$499,764	\$360,966

3. FIXED ASSETS

The following is a summary of the fixed assets and the related accumulated depreciation:

	1972		1971	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Equipment	\$ 993	\$ 491	\$ 993	\$ 366
Furniture and fixtures	38,556	14,612	31,414	8,625
Leasehold improvements	6,551	3,076	5,361	2,004
	46,100	18,179	37,768	10,995
Cost less accumulated depreciation		\$27,921		\$26,773

Depreciation is recorded at the maximum rates allowed for income tax purposes.

4. PATENTS AND TRADEMARKS

	1972	1971
Patents		
At cost, note 5	\$91,460	\$61,698
Amortization to date	(11,742)	(6,082)
	79,718	55,616
Trademarks		
At cost	5,662	1,435
Amortization to date	(417)	(84)
	5,245	1,351
	\$84,963	\$56,967

Patents and trademarks are being amortized over a 17 year period.

5. LEGAL ACTION

The company has instituted a legal action against a competitor for alleged infringement of its United States patent. This action has now been followed by a counter claim against the company. In the opinion of company's legal counsel such counter claim is unfounded.

The respective legal costs expended to October 31, 1972 of \$28,126 have been capitalized as part of the company's patents and are being amortized over the remaining life of the patents.

6. DEFERRED EXPENSES

	1972	1971
Deferred market development expenses	\$67,183	\$ —
Deferred sales expenses	6,948	10,831
	\$74,131	\$10,831

During the year the companies adopted the policy of capitalizing salaries, travel expenses and promotional expenses incurred in connection with the introduction and promotion of the sales of its products and services in new market areas, and intend to amortize these costs over the three year period ending October 31, 1975.

As a result of this change the net loss for the current year has been decreased and net assets as at October 31, 1972 have been increased by \$67,183.

These deferred expenses have been claimed in full for income tax purposes and are included in the loss carry-forward referred to in note 9.

7. BANK LOAN

The bank loan is secured by a general assignment of book debts.

8. DEFERRED INCOME TAXES

Deferred income taxes of \$3,050 in 1972 pertain to timing differences between accounting and tax income of the subsidiary company with respect to expenses deferred for financial statement purposes but claimed in full for tax purposes.

9. PROVISION FOR INCOME TAXES

The 1971 provision for income taxes of \$25,500 is based on the income which would have been subject to tax without the benefit of a prior year's loss carry-forward. The tax reduction resulting from the carry-forward of this loss is shown as an extraordinary credit in the consolidated statement of income. At October 31, 1972, additional tax losses of approximately \$107,000 are available for deduction from future years' taxable income up to and including 1977.

10. CONTINGENT LIABILITIES AND COMMITMENTS

The company is contingently liable for repayment of government grants received for the development of export markets, up to a maximum amount of \$5,509.

The company and its subsidiary company have leases for the rental of business premises up to a maximum of six years. Total rental expense for the fiscal year ended October 31, 1972 amounted to \$22,934 and minimum rentals for the succeeding years will aggregate approximately \$23,600 annually.

11. FOREIGN EXCHANGE

Foreign currencies have been converted to Canadian funds at the respective rates in effect at October 31, 1972.

12. COMPARATIVE FIGURES

Certain of the figures for the 1971 fiscal year have been restated to conform with presentation adopted in the current year.

13. STATUTORY INFORMATION

	1972	1971
Number of directors	5	5
Aggregate remuneration as directors	Nil	Nil
Number of officers	4	4
Aggregate remuneration as officers	\$56,396	\$34,583
Number of officers who are directors	4	4

AUDITORS' REPORT

**TO THE SHAREHOLDERS
POLCON CORPORATION**

We have examined the consolidated balance sheet of Polcon Corporation and subsidiary company as at October 31, 1972 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the consolidated financial position of the companies as at October 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change outlined in note 6 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

Montreal, Canada
December 8, 1972

DUNWOODY & COMPANY
Chartered Accountants

